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David A. Vaudt, CPA  
Auditor of State

**NEWS RELEASE**

FOR RELEASE \_\_\_\_\_ July 13, 2009

Contact: Andy Nielsen  
515/281-5834

Auditor of State David A. Vaudt today released a report on the Iowa Department of Economic Development for the year ended June 30, 2008.

The Department's purpose is to enhance the economic development of Iowa and provide for job creation and increased prosperity and opportunities for citizens.

A copy of the report is available for review in the Iowa Department of Economic Development, in the Office of Auditor of State and on the Auditor of State's web site at <http://auditor.iowa.gov/reports/reports.htm>.

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**REPORT OF RECOMMENDATIONS TO THE  
IOWA DEPARTMENT OF ECONOMIC DEVELOPMENT**

**JUNE 30, 2008**

Office of  
**AUDITOR  
OF STATE**

State Capitol Building • Des Moines, Iowa



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July 10, 2009

To Michael Tramantina, Director of the  
Iowa Department of Economic Development:

The Iowa Department of Economic Development is a part of the State of Iowa and, as such, has been included in our audits of the State's Comprehensive Annual Financial Report (CAFR) and the State's Single Audit Report for the year ended June 30, 2008.

In conducting our audits, we became aware of certain aspects concerning the Department's operations for which we believe corrective action is necessary. As a result, we have developed recommendations which are reported on the following pages. We believe you should be aware of these recommendations, which include those reported in the State's Single Audit Report and the State's Report on Internal Control, as well as other recommendations pertaining to the Department's internal control and compliance with statutory requirements and other matters. These recommendations have been discussed with Department personnel and their responses to these recommendations are included in this report.

The Iowa Department of Economic Development's responses to the findings identified in our audit are included in this report. While we have expressed our conclusions on the Department's responses, we did not audit the Iowa Department of Economic Development's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials and employees of the Iowa Department of Economic Development, citizens of the State of Iowa and other parties to whom the Iowa Department of Economic Development may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the Department during the course of our audits. Should you have questions concerning the above matters, we shall be pleased to discuss them with you at your convenience. Individuals who participated in our audits of the Department are listed on page 10 and they are available to discuss these matters with you.

A handwritten signature in black ink, reading "David A. Vaudt".

DAVID A. VAUDT, CPA  
Auditor of State

A handwritten signature in black ink, reading "Warren G. Jenkins".

WARREN G. JENKINS, CPA  
Chief Deputy Auditor of State

cc: Honorable Chester A. Culver, Governor  
Director, Department of Management  
Glen Dickinson, Director, Legislative Services Agency

June 30, 2008

**Findings Reported in the State's Single Audit Report:**

**CFDA Number: 14.228 – Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii**

**Agency Number: B-06-DC-19-0001, B-07-DC-19-0001, B-08-DC-19-0001**

**Federal Award Year: 2006, 2007, 2008**

**State of Iowa Single Audit Report Comment: 08-III-HUD-269-1**

- (1) Subrecipient Monitoring – Under the Community Development Block Grant (CDBG) program, housing rehabilitation grants may only be awarded to local governments. A local government may administer the program or may enter into a subrecipient agreement with an administrative entity, such as a Council of Governments, to administer the program. When a local government enters into such an agreement, the government effectively passes down all federal requirements of the program to the administrative entity, except for approving final reports and requesting funds. The agreement may not identify the administrative entity as a subrecipient when, in fact, the administrative entity becomes a subrecipient and must comply with CDBG program and OMB Circular A-133 requirements upon entering into the agreement. In addition, upon entering into the agreement, the local government is responsible for monitoring the administrative entity for compliance with CDBG program and OMB Circular A-133 requirements.

The Department has not advised local governments that administrative entities become subrecipients upon execution of an agreement in which the administrative entity agrees to administer the program. In addition, the Department has not made local governments aware of subrecipient monitoring requirements under OMB Circular A-133.

Recommendation – The Department should develop and implement policies and procedures to ensure local governments are aware of the subrecipient relationship created when the local government enters into a subrecipient agreement with an administrative entity to administer the program. The policies and procedures should include the subrecipient monitoring procedures required under OMB Circular A-133.

Response and Corrective Action Planned – The Department has begun to address the subrecipient issues noted as a result of the 2007 Statewide Single Audit comment 07-III-HUD-269-1. The Department added the following paragraph to the Housing Fund Management Guide (page 7, paragraph 2):

“Recipients are responsible for monitoring the performance of any third-party contractors under any general administration, technical services, or subrecipient agreement. The recipient is responsible for ensuring all activities comply with all applicable federal and state regulations.”

The Department has also expanded the “Subrecipient Agreement Usage Parameters-Housing Fund” in Appendix 1 of the 2008 Housing Fund Management Guide. The Department added two additional requirements relating to allowable cash on hand and additional reporting requirements relating to any interest cost reimbursement requested by the subrecipient.

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In addition, the Department now requires all subrecipient agreements to receive approval from the Department prior to execution. The Department, through their review of the agreement, ensures the agreement outlines the City remains the responsible entity for the federal award and this responsibility includes oversight, program monitoring, and audits.

Conclusion – Response accepted.

**CFDA Number: 14.228 – Community Development Block Grants/State’s Program and Non-Entitlement Grants in Hawaii**

**Agency Number: B-06-DC-19-0001, B-07-DC-19-0001, B-08-DC-19-0001**

**Federal Award Year: 2006, 2007, 2008**

**CFDA Number: 14.239 – HOME Investment Partnerships Program**

**Agency Number: M-06-SG-19-0001, M-07-SG-19-0001, M-08-SG-19-0001**

**Federal Award Year: 2006, 2007, 2008**

**State of Iowa Single Audit Report Comment: 08-III-HUD-269-2**

- (2) Performance and Evaluation Report (OMB No. 2506-0085) – An annual Performance and Evaluation Report is due from each federal grantee within ninety days of the close of its program year in a format suggested by the U.S. Department of Housing and Urban Development (HUD). HUD encourages submissions of the report in both paper and computerized formats. Among other factors, the report is to include a description of the use of funds during the program year and an assessment of the grantee’s use for the priorities and objectives identified in its plan.

The Department’s 2007 Annual Performance and Evaluation Report understated the units produced of affordable rental units by eight units in the “Elderly Renter Households” section and overstated the number of units assisted to meet applicable housing codes or standards. Also, the Department’s 2007 Annual Performance and Evaluation Report understated the benefit to low and moderate income persons by \$100,000.

Recommendation – The Department should review the Annual Performance and Evaluation Report prior to submission to ensure accurate reporting of the Department’s performance measures.

Response and Corrective Action Plan – The Department will review the report performance measures both at the time of compilation and again at the time of completion to ensure the items reported are accurate.

Conclusion – Response accepted.

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## **Findings Reported in the State's Report on Internal Control:**

Financial Reporting – Departments record receipts and disbursements on the Integrated Information for Iowa (I/3) system throughout the year, including the accrual period. Activity not recorded on the I/3 system is reported to the Iowa Department of Administrative Services – State Accounting Enterprise (DAS-SAE) on a GAAP package. The GAAP package is to be submitted to DAS-SAE by the first week of September each year.

The Department reported the receipt of certain loans as investment income on the GAAP package. However, these receipts were coded as refunds and reimbursements revenue on the I/3 system. This information in the GAAP package is used to prepare journal entries for the financial statements. As a result, investment income was understated and refunds and reimbursements were overstated by approximately \$1,750,000.

Recommendation – The Department should ensure the GAAP package information reported is accurate.

Response – In the future, the Department will note on the GAAP package the revenue coding used to record loan payments to ensure the correct revenue code is reported to DAS-SAE.

Conclusion – Response accepted.

## **Other Findings Related to Internal Control:**

- (1) Loan Receivables – The Department provides loans and forgivable loans through various programs. A review of the loan receivable activity identified the following:
  - (a) The Department forgave five loans, but the outstanding balances for the loans were not reduced to zero. Total loan receivable and allowance for doubtful accounts were overstated at fiscal year end by \$1,583,375. The net effect on assets and fund balance was zero. The Department has a policy to send a draft letter to the client which states a loan is forgiven. The letter notifies the accounting department the loan is forgiven and the account can be closed out. The letter was not forwarded to the accounting department. Therefore, the account was not properly closed out.
  - (b) Principal and interest on a loan are to be applied in accordance with the amortization schedule as stated in the loan contract. Many of the payments received on the HOME loan program were not applied to principal and interest appropriately according to contract terms.
  - (c) In 2003, the Department converted to the LRD system. Many loan balances on the HOME loan program were carried forward incorrectly. Variances range from a small amount to thousands of dollars between loans receivable on the LRD database and the amount reported by the Department.

### Recommendation –

- (a) The Department should develop and implement procedures to ensure loan balances and the related allowance for doubtful accounts are reduced to zero when loans are formally forgiven.



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- (b) The Department should develop policies and procedures to ensure principal and interest are applied properly when repayments are received.
- (c) The Department should correct the LRD database to reflect correct interest calculations on loans receivable.

### Response –

- (a) In all but one of the instances noted, the loan in question was a Brownfield project. The notice of forgiveness letters for the Brownfield loans which have been forgiven were inadvertently not forwarded to accounting. Accounting is currently working with the Brownfield project manager to obtain copies of these letters and forgive the loans on LRD. In addition, the remaining loan noted by the Auditor of State (04-CEBA-006) was noted as forgiven on LRD on 10/27/08.
- (b/c) The Department is in the process of purchasing a new loan system. The new system will more accurately apply principal and interest to properly reflect amortization schedules (depending on the timeliness of the receipt of payment). As the Department converts from the old system to the new system, loan balances will be reviewed and any correction needed will be completed. The Department hopes to have the new system in place by July 1, 2009.

### Conclusion – Response accepted.

- (2) Foundation Segregation of Duties – The Iowa Department of Economic Development Foundation is a separate, nonprofit corporation incorporated under Iowa Code Chapter 504A. The purpose of the Iowa Department of Economic Development Foundation is “receiving and disbursing funds from public or private sources to be used to further the overall development and well-being of the State.” One individual is responsible for the following:
  - (a) Petty Cash – The petty cash custodian is not prohibited from handling more than one fund or other cash receipts.
  - (b) Investments – The individual responsible for the detailed record keeping of investments is not independent of the custodian. Additionally, investment records are not periodically inspected by an individual having no responsibility for the custody or record keeping of investments.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, control activities should be reviewed to obtain the maximum internal control possible under the circumstances. Reviews should be performed by independent persons to the extent possible and should be evidenced by the reviewer’s initials or signature and the date of review.

Response – Effective June 1, 2009, the Administrative Services Division Administrator will review and initial the foundation cash receipts, not the petty cash custodian. Any future transactions involving foundation investments will be handled by the custodian but reviewed and initialed by the Deputy Director. This will provide requisite segregation on both the petty cash fund and investments.

### Conclusion – Response accepted.

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**Findings Related to Statutory Requirements and Other Matters:**

- (1) Iowa Code Compliance – The Department was not in compliance with Chapter 15.103 of the Code of Iowa during the year ended June 30, 2008. This code section created the Economic Development Board, with the Board to consist of fifteen voting members and seven non-voting members. The Department of Economic Development Board has only fourteen voting members.

Also, the Department was not in compliance with Chapter 15.203 of the Code of Iowa during the year ended June 30, 2008. This code section created the Agricultural Products Advisory Board within the Department, with the Board to consist of five members appointed by the Secretary of Agriculture and five members appointed by the Director. The Secretary of Agriculture has only appointed three members.

Recommendation – The Department should take the necessary steps to comply with the Code of Iowa.

Response – The appointment in question was made during fiscal year 2009 so the voting membership of the IDED board is now in compliance with Iowa Code Section 15.103. In the future, the Department will proactively work with the Governor's office regarding the filling of Board vacancies. In addition, the Department will continue communication with the Secretary of Agriculture to appoint the proper number of members to the Agricultural Products Advisory Council.

Conclusion – Response accepted.

- (2) Economic Development Foundation – The following were noted during our review of the Iowa Department of Economic Development Foundation:

- (a) The bank signature card for a Foundation account included former employees.
- (b) For 40 cash receipts tested, 2 were not deposited timely and 15 did not have supporting documentation.
- (c) Two journal entries were incorrectly posted to the wrong accounts, resulting in an overstatement of revenue of \$67,861.

Recommendation –

- (a) The Department should ensure all signature cards on Foundation bank accounts contain only the names of current employees.
- (b) Cash receipts should be deposited in a timely manner and should be properly supported.
- (c) The Department should correctly post financial information to the correct accounts.

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Response –

- (a) The Department is in the process of preparing and mailing letters to financial institutions that currently hold Foundation investments. This communication will include current signatory authority as authorized by the Foundation board and will also ask the institutions to remove any other names from their files. This will eliminate the issue with some institutions and generate updated signature card requests from the others.
- (b) The Department will work to improve the timeliness and supporting documentation required on Foundation deposits.
- (c) The Administrative Services Division Administrator will periodically (twice a year) review the journal entries for the Foundation in order to correct any erroneous postings in the financial system. This review will be documented on the Foundation journal entry report.

Conclusion – Response accepted.

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**Staff:**

Questions or requests for further assistance should be directed to:

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